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Report of the Director of the Office of Audit and Investigation Services on UNFPA internal audit and investigation activities in 2017

Summary

The present report on the UNFPA internal audit and investigation activities of the Office of Audit and Investigation Services (OAIS) for the year ending 31 December 2017 responds to Executive Board decisions 2015/2 and 2015/13 and earlier pertinent Board decisions.

The report presents a review of activities completed in 2017 by OAIS on internal audit and investigation. The report contains information on (a) the resources in OAIS for 2017; (b) significant issues revealed through OAIS internal audit and investigation activities; (c) investigations, including cases of fraud and actions taken; (d) the review of internal audit recommendations issued in 2010-2017 and their implementation status. Finally, the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control is included in document (DP/FPA/2018/6/Add.1). Annexes 1 to 7 are available separately on the UNFPA website.

Pursuant to Executive Board decision 2015/2 and earlier pertinent decisions, the annual report of the UNFPA Audit Advisory Committee (DP/FPA/2018/6/Add.2) is provided as an addendum to the present report. The management response thereto and to the present report is also available (DP/FPA/2018/CPR.5).

Elements of a decision

The Executive Board may wish to:

Take note of the present report (DP/FPA/2018/6), the opinion, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control (DP/FPA/2018/6/Add.1), the annual report of the Audit Advisory Committee (DP/FPA/2018/6/Add.2), and the management response thereto and to the present report;

Express its continuing support for the strengthening of the audit and investigation functions at UNFPA, and for the provision of sufficient resources to discharge their mandate;

Acknowledge and support the engagement of the Office of Audit and Investigation Services in joint audit and investigation activities.

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Annex 7: Update on action taken on investigation reports issued in 2014, 2015 and 2016

(Annexes 1 to 7 are available separately on the UNFPA website)

I. Introduction

1. The present report provides the Executive Board with a summary of the internal audit and investigation activities conducted by the Office of Audit and Investigation Services (OAIS) in 2017. It also provides the opinion of OAIS, based on the scope of work undertaken, on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control processes, as per decision 2015/13. This report provides first an overview of assurance, resources and activities undertaken by OAIS, before presenting a synthesis of findings from the work undertaken and of recommendations made and management action.

II. Assurance at UNFPA

A. Mandate, professional standards and independence

2. The OAIS mandate is based in Article XVII of the 2014 UNFPA financial regulations and rules, the oversight policy,[1] and the accountability framework.[2] OAIS solely performs or manages, or authorizes others to perform or manage, the following oversight functions: (a) independent internal audit services (adequacy and effectiveness of governance, risk management and internal control processes, and economic and efficient use of resources); and (b) investigation services (allegations of wrongdoing). The UNFPA Executive Director last approved the OAIS Charter on 26 January 2018. The Charter is included in Annex 1.

3. The Audit Advisory Committee (AAC) and the United Nations Board of Auditors regularly monitor the quality of OAIS work. The AAC continues to offer advice to promote the effectiveness of audit and investigation services provided by OAIS; in 2017, it reviewed the OAIS annual workplan, budget, regular progress reports, annual report and internal audit reports. The United Nations Board of Auditors monitored the actions taken to implement their recommendations aimed at improving OAIS operations. The external auditors continued to rely on OAIS work and reports in 2017.

4. As in past years, OAIS received support from UNFPA senior management throughout the year. The OAIS Director attended, inter alia, meetings of the UNFPA Executive Committee in ex-officio capacity, which provided her with an opportunity to advise senior management on governance, accountability or control aspects of new policies or procedures and to comment on any emerging potential risks to UNFPA.

5. OAIS conducted its work in accordance with the professional standards by which it is bound and the policies by which it has to abide – the oversight policy, the financial rules and regulations, and the staff rules and regulations; for internal audit, the International Standards for the Professional Practice of Internal Auditing;[3] and for investigation, the UNFPA disciplinary framework, the UNFPA vendor sanction policy, the UNFPA policy on protection against retaliation for reporting misconduct or for cooperating with an authorized fact-finding; and the Uniform Principles and Guidelines for Investigations.

6. To ensure its continuing effectiveness in carrying out its mandate, OAIS maintains a quality assurance and improvement programme for both the internal audit and the investigation functions. OAIS is implementing the recommendations from the external quality assessments of the internal audit function (2015) and the investigation function (2016).

[1] Executive Board decision 2015/2; see also DP/FPA/2015/1.

[2] See DP/FPA/2007/20.

[3] Promulgated by the Institute of Internal Auditors (IIA).

7. The OAIS Director hereby confirms to the Executive Board that OAIS enjoyed organizational independence in 2017. OAIS has been free from interference in determining and performing the scope of its work, and communicating its results.

B. Opinion on the adequacy and effectiveness of the UNFPA framework of governance, risk management and control

8. In the opinion of the Director, OAIS, based on the scope of work undertaken, the adequacy and effectiveness of the UNFPA governance, risk management and internal control processes was 'some improvement needed' – which means that the assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified did not significantly affect the achievement of the audited UNFPA area objectives. Management action was recommended to ensure that identified risks are adequately mitigated.

9. The reasons for the opinion formulated, the information on the criteria used as a basis therefor, the scope of work undertaken and the additional sources of evidence considered, as appropriate, to formulate the opinion, and the processes followed for aggregating and assessing the issues identified are provided in document DP/FPA/2018/6/Add.1.

C. Compliance with the oversight policy

10. The procedures for disclosure of internal audit reports, as stipulated in DP/FPA/2015/1, were in force throughout 2017, the fifth year of public disclosure. Although no request for access to reports issued between September 2008 and November 2012 was received in 2017, one report was provided to a Member State outside the framework. All reports issued after 1 December 2012 have been made public, within – in average – one month of internal issuance. For OAIS, the clarity and quality of its internal audit reports remain a matter of continuous attention, with significant time and effort invested in management interactions.

11. As stipulated in DP/FPA/2015/1 (paragraph 27), OAIS resources were effectively and efficiently deployed in 2017; however, vacancies and events beyond OAIS control hindered it from achieving the expected internal audit plan. Resources were insufficient to address the mounting – and increasingly complex – investigation caseload, or for supporting management other than through sporadic advisory services (see sections III, 14, V, VIII and IX).

III. Resources

12. As at 31 December 2017, OAIS had 24 approved posts: 4 at the general-service level and 20 at the professional level. The internal audit complement includes two chiefs, nine auditors and a data analyst, augmented, for field missions, by individual consultants and staff from local audit firms under long-term agreement (representing approximately over two full-time equivalent); three positions were vacant at year-end; these were all filled within the first quarter of 2018. On investigation, the complement includes a chief, five staff investigators at various levels, augmented by investigation consultants. As in past years, the OAIS directorate, with the Director and two general-service staff (one post being vacant at year-end) covers the general management and administration of OAIS as well as the following functions: issuance of all reports; relations with Member States and donors; most advisory services; serving as the UNFPA focal point for the Joint Inspection Unit; and serving as the AAC secretariat. The internal audit quality assurance and improvement function has been included since 2016 in the directorate, with a dedicated professional staff.

13. Difficulties in identifying suitably qualified candidates, compounded by delays in the recruitment and entry-on-duty processes, remained valid in 2017 as in past years. The overall vacancy rate in OAIS was higher in 2017, at 25 per cent, with a different distribution compared to 2016 (see Table 1). It was in part compensated by engaging over five full-time consultants.

Table 1
Resources – 2016 and 2017

Budget	Internal Audit		Investigation		Directorate		AAC		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Professional posts – approved	10	12	5	6	2	2	-	-	17	20
Vacancy rate	*13%*	*23%*	*22%*	*39%*	*0%*	*0%*	-	-	*14%*	*25%*
Support posts – approved	1	1	1	1	2	2	-	-	4	4
Vacancy rate	*0%*	*0%*	*0%*	*0%*	*50%*	*50%*	-	-	*25%*	*25%*
(In thousands of United States Dollars)										
Staff costs (vacancy adjusted)	2,179	2,211	789	948	719	670	-	-	3,687	3,829
Individual consultants	171	252	299	451	-	-	67	65	537	768
Procured services	472	688	27	111	-	-	-	-	499	799
Travel	336	330	136	305	11	36	53	161	536	832
Operational costs [i]	32	53	45	26	-	-	10	8	87	87
Learning [ii]	n.a.	44	n.a.	13	n.a.	11	-	-	n.a.	68
TOTAL	3,190	3,578	1,296	1,854	730	717	130	234	5,346	6,383

(i) Mainly for information technology (IT) systems.
(ii) Learning only included in OAIS budget in 2017.

14. Since 2014, OAIS has been solely funded from the UNFPA institutional budget. In 2017, as in previous years, OAIS continued to proactively manage its budget. Adjusted for the 2017 actual vacancy rate, the yearly budget increased, compared to 2016 (see Table 1 above).

IV. Internal audit activities in 2017

A. Audit risk assessment methodology

15. OAIS executes its assurance activities based on a risk-based audit plan, approved by the Executive Director after review by the Audit Advisory Committee. The audit plan was developed based on a documented audit risk assessment of the audit universe, composed of 138 business units involved in programme delivery activities, 15 core business processes, and 10 information and communications technology (ICT) areas. Risk is measured through a portfolio of indicators representing the potential impact and likelihood of events that might adversely affect the achievement of objectives of the business units, processes and systems assessed.

16. The business unit audit risk assessment uses indicators that measure: (a) programme materiality, complexity, performance and changes; (b) operational complexity and performance; (c) business unit capacity to manage programme and operational activities; and (d) corruption levels[4] in the countries where field offices are located.

17. The core business process audit risk assessment uses indicators that measure: (a) the monetary value flowing through these processes, their impact and complexity; (b) the changes

[4] Based on indicators published by the World Bank.

affecting them; (c) the perceived effectiveness of systems and controls in place; and (d) the capacity to manage processes.

18. Risks associated with ICT are assessed separately, based on indicators that measure: (a) their relevance and complexity; (b) changes affecting them; and (c) the perceived effectiveness of controls in place in these areas.

19. The audit risk assessment also considered: (a) the outcome of the enterprise risk management (ERM) and control self-assessment processes under implementation by management; (b) interactions with management at headquarters and regional offices; (c) the results and completion dates of previous internal and external audits; as well as (d) the knowledge gathered through investigation work. The outcome of the risk assessments is elaborated in section VI.A.

B. Audit plan for 2017

20. The audit plan for 2017 was based on (a) the 2016/2017 business unit and process audit risk assessment results; and (b) the ICT risk assessment conducted in late 2015.

21. The original 2017 internal audit workplan included 30 audit engagements covering primarily 2016 expenses, and comprised a mix of high and medium-risk business units; high-risk processes, programmes and ICT areas; and joint audits, as decided among the internal audit services of the United Nations system organizations (UN-RIAS). In order to maximize resources, audits were deliberately planned to reach varying degrees of completion by year-end. During the year, the plan was amended to reflect high emerging risks requiring immediate attention, shifting environments, the introduction of a new ICT tool later than originally planned, and unforeseeable events. The actual level of implementation is presented in Table 2.

Table 2
Overview of 2017 audits

Status	Business units	Processes and programmes	ICT	Joint audits [a]	Remote audit process[b]	Total
Original planned audits – by finalization year						
To be finalized in 2017	18		1	1	1	21
To be started in 2017 and finalized in 2018	3	2	1		3	9
Total audits	**21**	**2**	**2**	**1**	**4**	**30**
Actual audits – by status at year-end						
Final reports issued [c]	9		1	3		13
Draft reports issued [d]	2				1	3
Subtotal	**11**	**-**	**1**	**3**	**1**	**16**
Draft reports under preparation or review	5					5
Planning or fieldwork phase	3				2	5
Total	**19**	**-**	**1**	**3**	**3**	**26**

Notes
(a) Under leadership of other United Nations internal audit services.
(b) Review, from headquarters, of the operating effectiveness of selected key controls and financial transactions of field offices.
(c) List in Annex 2. One business unit was audited in two phases, with separate reports.
(d) All final reports were issued as at 15 February 2018.

22. The eight business unit audits (country offices, one of which was covered twice, and a regional humanitarian hub) covered expenses amounting to $168.4 million – 18 per cent of 2016 total expenses. One audit was rated as 'satisfactory' or 'effective'[5] (11 per cent); six audits (67 per cent) were rated as 'some improvement needed';[6] one as 'major improvement needed';[7] and one as 'not effective' (11 per cent respectively).[8] Ratings by audited area are shown in Table 3.

Table 3
2017 business unit audits - ratings by area

Rating	Areas[(a)]					
	Office governance		Programme management		Operations management[(b)]	
	Offices	%	Offices	%	Offices	%
Satisfactory/effective	1	*11%*	2	*22%*	4	*57%*
Some improvement needed	7	*78%*	5	*56%*	2	*28%*
Major improvement needed	1	*11%*	2	*22%*	-	-
Not effective	-	-	-	-	1	*14%*

(a) Scope and depth of review varies by audit, commensurate with the results of the planning audit risk assessment.

(b) One business unit was audited in two phases, with operations management covered once; for another, operations management was not relevant.

23. One ICT audit was completed in 2017 (UNFPA website governance) with a rating of 'some improvement needed' after the two first phases of audit work. That rating was raised to 'effective' when finalizing the report, after OAIS assessed the numerous initiatives and changes undertaken by management, concluding that the original issues identified had all been addressed (see further details in paragraphs 61-62).

24. Timeliness of report finalization was hindered in 2017 (16 reports issued in 2017 versus 19 in 2016), in view of the limited OAIS management capacity due to unforeseen vacancies and the elapsed time in receiving management responses for some reports.

25. Details on the most significant findings are provided in Section VI.B.

[5] 'Effective' – "The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issue(s) and improvement opportunities identified, if any, did not affect the achievement of the audited entity or area's objectives."

[6] 'Some improvement needed' – "The assessed governance arrangements, risk management practices and controls were adequately designed and operating effectively but needed some improvement to provide reasonable assurance that the objectives of the Office will be achieved. The issues and improvement opportunities identified did not significantly affect the achievement of the audited entity/area objectives. Management action is recommended to ensure that identified risks are adequately mitigated."

[7] 'Major improvement needed' – "The assessed governance arrangements, risk management practices and controls were generally established and functioning but need major improvement to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could significantly affect the achievement of the objectives of the audited entity/area. Prompt management action is required to ensure that identified risks are adequately mitigated."

[8] 'Not effective' – "The assessed governance arrangements, risk management practices and controls were not adequately established or functioning to provide reasonable assurance that the objectives of the audited entity/area should be achieved. The issues identified could seriously compromise the achievement of the audited entity or area's objectives. Urgent management action is required to ensure that the identified risks are adequately mitigated."

C. Resulting audit coverage

26. The OAIS audit strategy indicates that high-risk business units would be audited over a three-year cycle, and medium-risk business units over a 10-year cycle, with additional assurance provided through the remote audit process, which also covers low-risk business units. Supplementing the coverage provided by business unit audits, high-risk core processes would be covered through cross-cutting reviews over a 10-year period.

27. The average audit cycle for high- and medium-risk business units for the period 2015-2017 was 5 and 11 years (versus 6 and 12 years for 2014-2016 and 10 and 18 years for 2013-2015, respectively); and over 12 years for the higher-risk core processes.

V. Investigation activities in 2017

28. OAIS is responsible for conducting investigations into all types of allegations of wrongdoing:

(a) Internal investigations: misconduct by UNFPA staff, ranging from fraud and corruption to harassment, sexual harassment, abuse of authority, retaliation against whistle-blowers, sexual exploitation and abuse, and other violations of applicable regulations, rules and administrative or policy issuances; and

(b) External investigations: proscribed practices by independent contractors, implementing partners, suppliers and other third parties, including corrupt, fraudulent and other unethical practices committed to the detriment of UNFPA.

29. After receiving a complaint, OAIS conducts a preliminary assessment to determine whether there are reasonable indications of wrongdoing. When OAIS determines that there are insufficient grounds to merit a full investigation, the matter is closed, documented with a closure note; when appropriate, situations are referred to management for attention or action, or for informal resolution. If the assessment finds a reasonable indication that wrongdoing occurred, OAIS opens a formal investigation. Should it be substantiated, OAIS issues an investigation report by subject (staff, other personnel or entity involved) to the Executive Director, for appropriate administrative or disciplinary action, or sanction, and where relevant, referral to national authorities and financial recovery. When an investigation reveals systemic weaknesses in internal controls that are not already covered in internal audit reports, OAIS may issue a separate communication for management to address the identified weaknesses.

A. Caseload

30. In 2017, OAIS dealt with 106 new cases, a 18 per cent increase, compared to 2016.

31. Together with the 41 cases carried over from 2016, OAIS dealt in 2017 with 147 active cases (see Table 4), a slight increase compared to 2016 (and 81 per cent, compared to 2013). In addition, OAIS dealt with 11 cases of staff soliciting advice related to the OAIS investigation mandate.

Table 4
Overview of cases received and closed in 2017

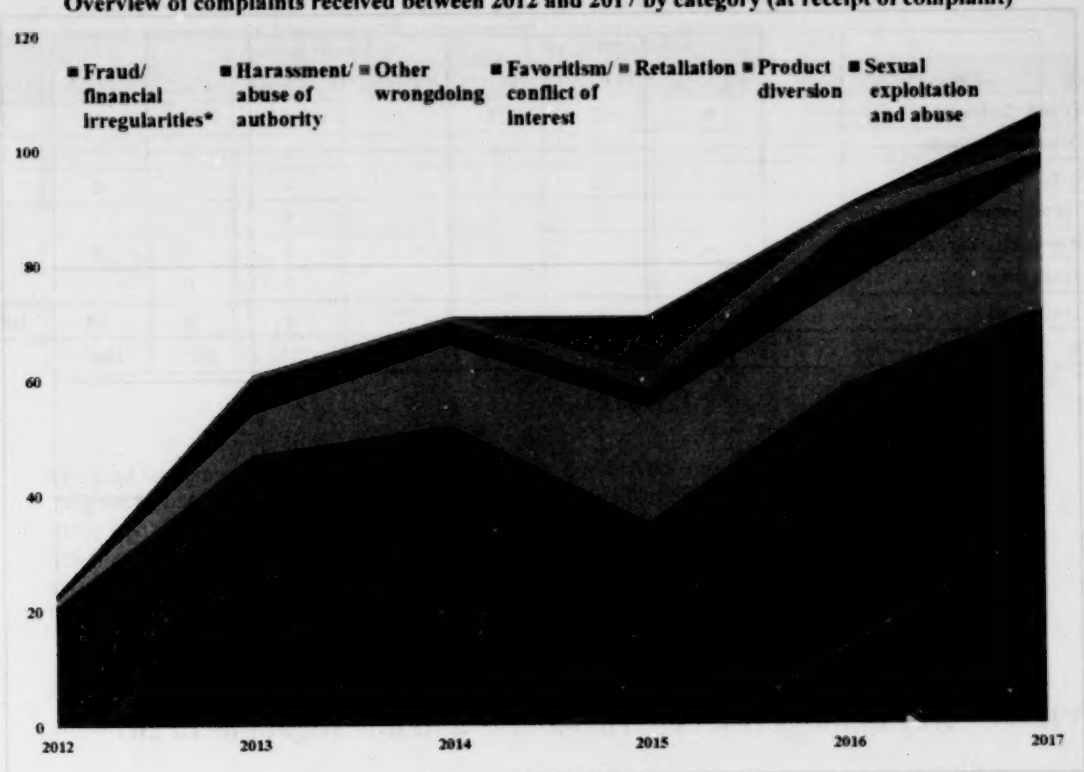
	2014	%	2015	%	2016	%	2017	%
Cases carried over								
- from 2012 or earlier	2	*2%*						
- from 2013	32	*30%*	3	*3%*				
- from 2014			41	*36%*	4	*3%*		
- from 2015					48	*34%*	4	*3%*
- from 2016							37	*25%*
Complaints received in current year	71	*68%*	71	*61%*	90	*63%*	106	*72%*
of which: internal	*50*	*48%*	*44*	*38%*	*58*	*41%*	*64*	*44%*
external	*21*	*20%*	*27*	*23%*	*32*	*23%*	*42*	*28%*
Total caseload	**105**	***100%***	**115**	***100%***	**142**	***100%***	**147**	***100%***
Cases closed								
After preliminary assessment	41	*67%*	35	*56%*	75	*74%*	53	*65%*
After full investigation	20	*33%*	28	*44%*	26	*26%*	29	*35%*
of which: substantiated	*15*	*24%*	*13*	*21%*	*19*	*19%*	*14*	*17%*
unsubstantiated	*5*	*8%*	*15*	*24%*	*7*	*7%*	*15*	*18%*
Total cases closed	**61**	***100%***	**63**	***100%***	**101**	***100%***	**82**	***100%***
Cases carried over to the following year	**44**		**52**		**41**		**65**	
of which: internal	*27*	*61%*	*26*	*50%*	*25*	*61%*	*38*	*58%*
external	*17*	*39%*	*26*	*50%*	*16*	*39%*	*27*	*42%*

B. Types of complaints

32. In 2017, OAIS received 53 cases (50 per cent) related to fraudulent practices (internal and external), followed by allegations of other forms of wrongdoing without financial implications (e.g. extortion, abuse of privileges and immunities) with 24 cases (23 per cent); 16 cases (15 per cent) related to workplace harassment (13 cases), sexual harassment (2 cases) and abuse of authority (1 case). Other allegations received involved sexual exploitation and abuse – 3 cases (3 per cent); favouritism – 3 cases (3 per cent); theft – 3 cases (3 per cent); product diversion – 3 cases (3 per cent); and retaliation – 1 case (1 per cent). Figure 1 presents the trend by category and by year.

Figure 1

Overview of complaints received between 2012 and 2017 by category (at receipt of complaint)



(*) Includes fraudulent practices, theft and misrepresentation.

33. OAIS received complaints reported by email directly to OAIS (42 per cent); through the OAIS confidential investigation hotline (25 per cent); in person (18 per cent); by referral from internal audit (8 per cent); and by entities external to OAIS or to UNFPA (6 per cent). A number of allegations were also derived proactively from other investigations (2 per cent).

C. Disposition of cases

34. Of the overall caseload (147 cases), 82 cases were concluded in 2017: 53 after a preliminary assessment and 29 after a full investigation.

35. Of the 29 cases investigated, 14 cases were substantiated in full or in part (see Table 5 and details in Annex 6). The approximate aggregate value of substantiated cases involving fraudulent practices and financial irregularities amounted to $41,345.

Table 5
Overview of cases investigated in 2017 by category (at conclusion of investigation)

Description	Substantiated			Unsubstantiated			Total	
	External	Internal	Total	External	Internal	Total	Total	% (*)
Fraud/ financial irregularity(*)	8	3	11	7	3	10	21	73%
Other wrongdoing	-	1	1	-	2	2	3	10%
Conflict of interest	-	2	2	-	-	-	2	7%
Sexual exploitation and abuse	-	-	-	-	1	1	1	3%
Workplace harassment	-	-	-	-	1	1	1	3%
Retaliation	-	-	-	-	1	1	1	3%
Grand Total	8	6	14	7	8	15	29	100%(**)
%	27%	21%	48%	24%	28%	52%	100%	

(*) *Including one case of theft*
(**) *Difference due to rounding*

36. Sixty-five cases were carried over to 2018 (a 58 per cent increase, compared to 2017). Those related primarily to internal matters of medium priority. 'Fraud' represented 68 per cent, followed by 'other misconduct' (14 per cent), 'workplace harassment' (6 per cent), 'favouritism' (5 per cent), 'theft' (5 per cent), 'sexual exploitation and abuse' (2 per cent) and 'conflict of interest (2 per cent). From the 65 cases, 48 per cent (31 cases) were at the preliminary assessment stage and 52 per cent (34 cases) either at the investigation or report writing stages. Forty-five per cent of the carried-over portfolio (29 cases) was above the six-month target for case conclusion.

VI. Key findings from internal audits and investigations in 2017

A. 2017 Audit risk assessment

37. Table 6 summarizes the outcome of the 2017 audit risk assessments of business units. In view of the risk assessment of (a) business units and (b) of the components of core processes and ICT – which supports the 2018 audit plan.

Table 6
Outcome of the 2017 audit risk assessment

Entities	Risk			Total
	High	Medium	Lower	
Country offices	12	48	61	121
Regional offices	-	5	1	6
Liaison offices	-	-	8	8
Headquarters units involved in programme delivery	1	3	1	5
Business units	**13**	**56**	**71**	**140**
Components of core processes and ICT (*)	**30**	**90**		**120**

(*) Core processes and ICT were decomposed in their components; the assessment focussed on higher-risk ones.

38. The audit risk assessment reflects the UNFPA risk exposure, which remained fundamentally unchanged, compared to previous years. The resulting audit risk factors are, in general, consistent with those identified through the enterprise risk management process under implementation by management, and arise primarily from:

(a) A complex and relatively atomized programme, implemented by a large number of business units; several of them operate in fragile settings, in collaboration with a large number of implementing partners with varying capacity levels;

(b) More complex humanitarian response activities, in more countries than in past years;

(c) A large reproductive health commodity security programme ('UNFPA Supplies'), undergoing a large scale change management exercise, while continuing to supply a high volume of contraceptives – creating multiple supply-chain management challenges;

(d) Continued dependency on a small number of key donors, compounded by the decision of one Member State to withdraw its funding, and exposure to currency fluctuations;

(e) An increasing proportion of other resources (non-core funding) – reducing programming flexibility, increasing the workload of those business units involved in dealing with these funds, while covering only partially the cost of core management functions; and

(f) Highly decentralized operations, with a sizable and dispersed workforce (including extensive use of consultants), significant local procurement levels and a large number of financial transactions.

39. Twenty-eight business processes and five information and communications technology areas remain assessed as higher audit risk while noting some progress in 2017 in addressing it; key causes therefor are included in brackets.

(a) *Governance*: (i) integrated control framework; management oversight ('i.e., 'second line of defense' controls); ERM, including fraud risk management (control and capacity gaps) – with progress made in developing policies and tools; (ii) management of corporate priorities; and (iii) structure and personnel alignment, duly noting the improvement in 2017 therein; and workforce and succession planning (capacity constraints, including prolonged vacancies in key positions); (iv) resource mobilization (changes in funding landscape); and (v) business continuity (emerging; e.g. testing of plans);

(b) *Programme management*: (i) programme design; and governance and oversight (gaps in results frameworks and planned policy changes); (ii) workplan, programme financial management, and monitoring (control gaps, with improvements noted in available tools yet uneven usage); (iii) humanitarian response (control and capacity gaps; increase in humanitarian interventions, and challenges affecting them; while noting improvements in monitoring); (iv) implementing partner capacity assessments; advances and expense management; and assurance mechanisms (process and system changes); (v) supply-chain management (control and capacity gaps, with improvement in 'second line of defense'); (vi) development and costing of funding proposals (larger proportion of non-core funding) and (vii) trust-fund management (process changes and improved transparency with the dedicated management unit);

(c) *Operations management*: (i) human resources strategy implementation, recruitment, and contract personnel management (process gaps and changes; with improvement in key position vacancy rates and contract personnel management); (ii) field office procurement (operating effectiveness gaps); (iii) humanitarian procurement (risks inherent to using emergency procurement procedures, in a larger number of countries); (iv) commitment control (control gaps); (v) project cash advances (growing use of third-party payment systems with better advance management); and (vi) value-added tax management (control gaps);

(d) *Information and communication technology*: (i) governance of process, project, and data; service delivery (control and capacity gaps which are improving with the ICT transformation project); (ii) business applications (gaps in functionality and controls in the enterprise resource planning and other ICT systems – increasing workload and non-compliance risk, and limiting information available for monitoring and management oversight); (iii) cloud dependency (new risk; managing third-party risk); and

(e) *New areas:* (i) responding to sexual exploitation and abuse in the UNFPA programmatic context and at system-wide level; and (ii) responding to situations of harassment (both and sexual) and of abuse of authority; both with the necessary due process, competency, swiftness and transparency.

B. Key internal audit and investigation findings

40. Good practices, and improvement opportunities revealed through internal audit and investigation work in 2017 are consistent with those identified and reported in previous years, as well as those included by the United Nations Board of Auditors in its 2017 management letter. They are presented below, and a tabular overview included in Annex 3.

Business units

(i) Office governance

41. Improvements in annual plans continued, with several offices preparing clear and relevant annual management plans, completed on time. Several offices effectively established decentralized structures for better implementation and monitoring of programme activities; and for those concerned, many implemented well-defined mechanisms for coordination and follow-up of humanitarian response activities. Regular meetings of staff and management, for information sharing, programme implementation monitoring and coordination of programmatic and operational activities, were observed again in 2017.

42. To continue on the path of improvement, the integration of the strategic information system with the global programming system would allow a more comprehensive and integrated monitoring, so that plans consistently reflect all relevant outputs (including their definition); the corresponding indicators, baselines, targets; and incorporate more detailed milestones.

43. Regarding the alignment of staffing with programme delivery and operational needs, the audits conducted disclosed a need to improve on the approval and implementation of organizational structure and alignment reviews – the issue was addressed, with multiple exercises approved before year-end, as was noted during recommendation follow-up. The vacancy rate for senior office positions declined; yet there were instances where vacancies were not promptly filled – in particular, at offices managing large or complex programmes, or operating in fragile contexts – over which headquarters and regional support and oversight should be strengthened.

44. Regarding ERM, the tool was enhanced, and the risk response process was started towards the latter part of the year; hence, its effectiveness will only be assessed in future audits. At the same time, the risk assessment remains an area needing improvement, particularly in (a) identifying and assessing all (relevant) risks impacting an office; and (b) defining (and implementing) appropriate risk mitigation actions.

(ii) Programme management

a. Programme planning, implementation and monitoring

45. Several offices introduced practices to minimize the risks associated with handling cash payments – these practices should be shared for learning throughout the organization. Many offices improved in their programme management practices.

46. At the same time, as mentioned in past years, to allow a more effective planning and implementation of programme activities and better tracking of progress towards achieving expected programme results requires more comprehensive programme results and resources frameworks to be developed, supplementing country and regional programme documents. Such frameworks should better outline: (a) programme outputs; (b) indicators and related baselines and targets; (c) milestones (i.e., intermediate results); and (d) resource estimates, with disaggregated information for all periods within the programme cycle. The previously mentioned integration of the Strategic Information System (SIS) with the Global Programming System (GPS), as part of the ICT transformation efforts, would help in this regard.

47. Workplan management saw some enhancements, yet should be further strengthened, as mentioned in past years. Budgets and alignment with agreements signed with implementing partners are under increased scrutiny. A more consistent and rigorous monitoring of workplan implementation and results achieved is still needed. The introduction of the "second generation" Global Programming System (GPS II) in late 2017 is expected to improve budgeting and monitoring of funds, particularly as regards programme financial management controls – including funds transferred to implementing partners. However, this requires discipline to maintain it up-to-date and aligned with the ERP system – hence, to be a living and continuously used management tool at country, regional and global levels. The full impact of this "second generation" tool will be reviewed in upcoming audits.

b. National execution

48. The revised harmonized approach to cash transfers (HACT) framework was progressively rolled out with the introduction of assurance plans organization-wide in 2017. The need for more thorough and better documented assessments of the programmatic and financial management capacity of implementing partners was a recurring theme in 2017, together with increased and more comprehensive monitoring. The pattern of fund disbursements – primarily the last two quarters of a year (see annex 5), and the scope of audits concluded in 2017 provided first insights into assurance mechanisms, especially spot-checks (conducted either by, or in combination with, UNFPA staff, outside firms, and other United Nations organizations). To become a fully reliable source of assurance, the process has to mature, in terms of depth, necessary skills (taking into account staff turnover) and documentation. Future audits will provide more insights.

c. Inventory management

49. To increase the availability of reproductive health commodities and limit stock-outs, two areas continued to dominate audit findings (and none was new): (a) needs assessment, leading to procurement planning; and (b) in-country supply-chain management – from customs clearance, to warehousing, to distribution to beneficiaries. Both areas require increased support to programme countries by all stakeholders involved.

50. OAIS noted changes, for instance, the introduction of new inventory management guidelines; in some offices, faster customs clearance; or efforts to improve transparency of in-country distribution. Yet receiving and inspection controls should be more consistently performed and documented; also required are regular monitoring of inventory held by implementing partners as well as tracking the timely distribution and availability of inventory at service delivery points.

d. Management of non-core resources

51. No significant issues were identified in 2017, other than the need to continue to step up coordinated resource mobilization efforts.

(iii) Operations management

a. Human resources

52. Mixed compliance with the policies and procedures regarding awarding and managing service and individual consultancy contracts was noted; leave management has improved. Fulfilling mandatory training requirements continued to be stressed in 2017.

b Procurement

53. Improvements in procurement planning were mixed. Non-compliance, in some cases significant non-compliance, with procurement procedures at the local level – in the areas of bidding, contract award and contract management – were found, with some not identified and properly addressed in a timely manner. Recurring opportunities to expand the use of long-term agreements at the local level, to increase procurement efficiency and value-for-money, continue to be noticed. The expected introduction of e-procurement as part of the ICT transformation would help strengthen this area.

c. General administration

54. Compliance with travel policies, especially in terms of advance fare purchase, at the local level remained a challenge. The introduction or expansion of the headquarters travel module to field operations would improve transparency. The foreseen inclusion of such module as part of the ICT transformation would help strengthen this area.

d. Financial management

55. Fewer instances of expenses recorded in incorrect account codes (thereby diminishing the overall reliability of programme and financial information) were found. There were also fewer instances of issues on value-added-tax payments and reimbursements.

56. As mentioned in past years, to minimize the risk of transactions executed without appropriate management approval and potentially incurring expenses in excess of available financial resources, financial commitments should be reflected and approved in Atlas in a more timely manner.

57. In addition, the processes and controls over disbursements made through payment services providers, including banks, money transfer operators and mobile telephony companies, remain an area needing strengthening.

(iv) Support to and oversight over country offices (regional offices)

58. OAIS reviewed the hub dedicated to supporting the humanitarian activities of the countries involved in the 'Whole of Syria' response. The hub, one of its kind, is a subset of the Arab States Regional Office and is dedicated to supporting the UNFPA inter-agency efforts in this matter, enhancing the effectiveness of the UNFPA response, in terms of gender-based violence programmatic activities, resource mobilization, communication, and monitoring and evaluation.

59. OAIS found that the hub set-up needed some improvements, in terms of better formalizing its role and its planning and monitoring processes, as well as strengthening its reproductive health component similarly to what was done for gender-based violence. The hub

management of non-core funding was deemed effective, with one recommendation to strengthen its fulfilling donor reporting requirements.

Processes and programmes

60. No process or programme audit was concluded in the period under review.

Information and communication technology

61. The objective of the website governance audit (conducted in two phases) was to review (a) the design and operational effectiveness of processing procedures and internal controls to ensure the integrity, security accuracy, ease of use, and completeness of websites at UNFPA; (b) the sufficiency of the deployment and quality assurance testing process undertaken prior to releasing the new website application into production; (c) the overall adequacy and sufficiency of training and support provided to website users, content authors and administrators; and (d) the general controls related to administrative and privileged access to the website.

62. OAIS noted that all 12 issues and key risks identified have been mitigated or otherwise addressed during the audit, inter alia, with the implementation of a new web application framework and content management system.

Joint audits

63. OAIS participated in three joint audits concluded in 2017. Based on the audit work conducted alongside its own country office audits, OAIS contributed to the consolidated summary report by all internal audit services of organizations, which audited funds received from the South Sudan Common Humanitarian Fund led by the United Nations Development Programme (UNDP), and similarly to the consolidated summary report on the management of activities funded from the Central Emergency Response Fund in Ethiopia led by the World Food Programme (WFP).

64. OAIS also participated in the audit of delivery-as-one in Vietnam led by UNICEF, concluded with a rating of 'partially satisfactory'. Fourteen recommendations were issued to the Resident Coordinator and the United Nations country team on the five pillars of the delivery-as-one framework; five of which were rated as 'high priority' (for 'one leader'; 'one programme' and 'one plan fund'), and nine as 'medium priority'.

VII. Recommendations made and management actions

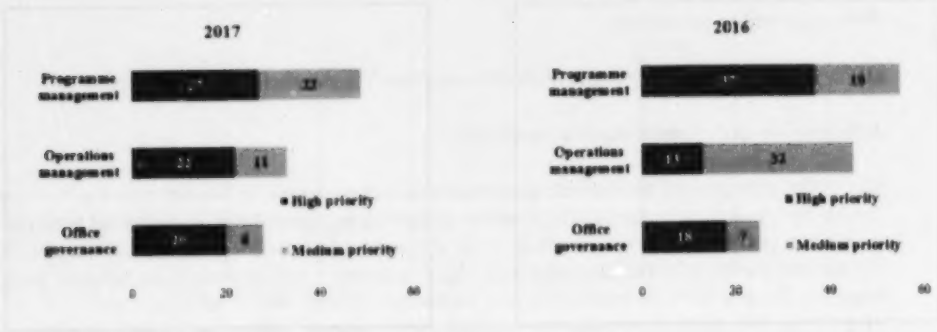
A. Audit recommendations

New recommendations

Field offices

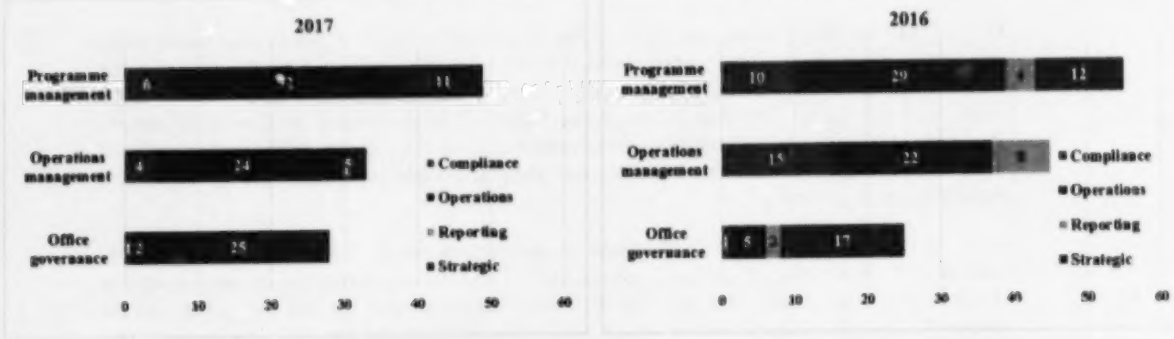
65. Overall, 110 recommendations in relation to field office audits were issued in 2017. Consistent with prior years, 'programme management' continued to account for the larger proportion of recommendations (45 per cent), followed by 'operations management'. Of the 110 recommendations, 69 (63 per cent) were rated 'high priority', an increase compared to 2016 (54 per cent); the remaining 41 (37 per cent) were rated 'medium priority' (see Figure 2).

Figure 2
Country office audit recommendations – by priority level



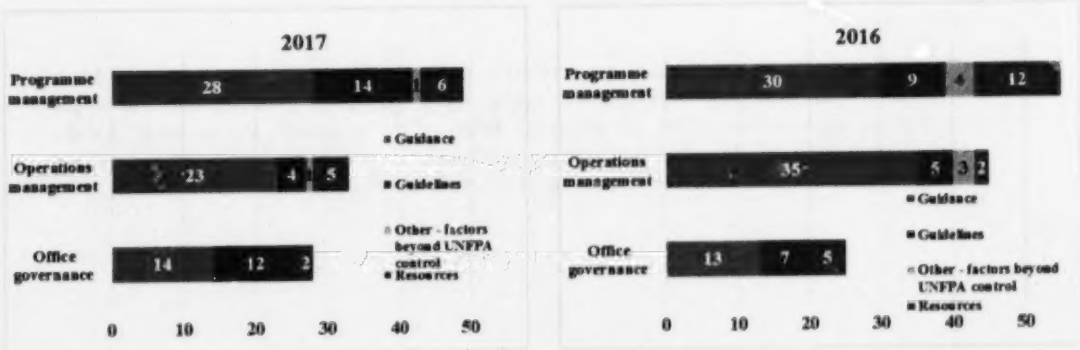
66. Recommendations relate predominantly to 'operations' and 'strategic' objective categories – 58 (53 per cent) and 41 (37 per cent) recommendations, respectively, with fewer incidences of 'compliance' (10 per cent versus 21 per cent in 2016) and none of 'reporting'-related matters (see Figure 3).

Figure 3
Country office recommendations – by type



67. Insufficient 'guidance' (inadequate or insufficient supervisory controls) remained the main root cause for issues identified (65 recommendations; 59 per cent), followed by an increase regarding inadequate 'guidelines' (lack of or inadequate policies) with 30 recommendations (27 per cent); and 'resources' (human or financial) – 13 recommendations (12 per cent) (see Figure 4).

Figure 4
Country office audit recommendations – by cause



Information technology

68. As mentioned in paragraph 62, all issues and key risks identified during the website governance audit were mitigated or otherwise addressed. Hence, all recommendations were deemed implemented when reviewing all actions undertaken by management prior to finalizing the report.

Outstanding recommendations

69. As shown in Table 7, 112 recommendations[9] remained outstanding as at 31 December 2017, following the closure of 249 recommendations during the year 2017.

Table 7
Status of implementation of audit recommendations by year

Year	Number of reports [b]	Recommendations issued	Outstanding recommendations	
			2016	2017
2010[a]-2014	36	565	12 (2%)	4 (1%)
2015	11	171	69 (40%)	18 (10%)
2016	12	183	158 (87%)	44 (24%)
Subtotal	**59**	**919**	**239 (26%)**	**66 (7%)**
2017	10	122	n.a.	46 (38%)
Total	**69**	**1,041**	**n.a.**	**112 (11%)**
Of which: past their implementation deadline			*134 (56%)*	*72 (64%)*
Due for implementation after 31 December			*105 (44%)*	*40 (36%)*

(a) For 2010, only including the number of reports with outstanding recommendations

(b) Excludes reports and recommendations of joint audits followed by the internal audit service which lead the joint audit.

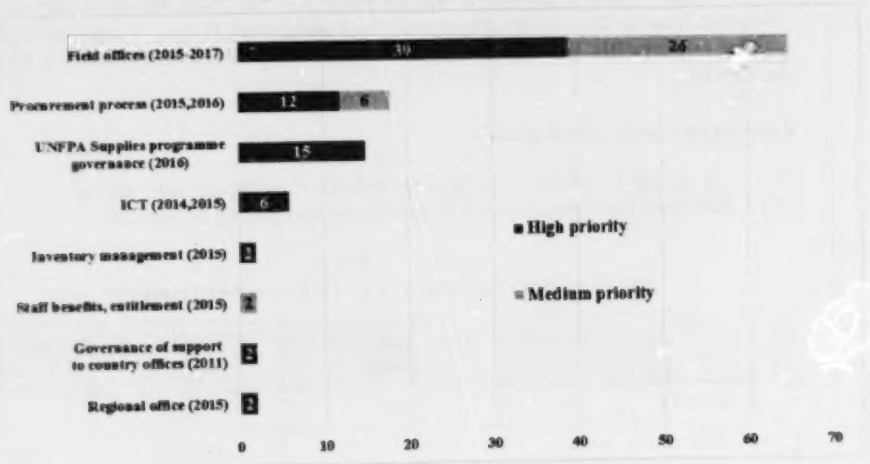
70. Figure 4 provides details on the outstanding recommendations, of which 65 (58 per cent) pertain to field office audits (from 2015 to 2017); 2 (2 per cent) to a regional office audit (2016), and 45 (40 per cent) to process, programme and ICT audits.

71. Of the 65 outstanding field office recommendations, 29 correspond to 'programme management' (including 10 related to 'inventory management'; 10 to 'national execution'; 6 to 'programme planning and implementation'; and 3 to 'management of non-core funding'); 21 to 'office governance' (with 12 related to 'organizational structure and staffing'; 6 related to 'risk management' and 3 to 'office management'); and 15 to 'operations management' (of which 7 refer to 'procurement'; 4 to 'financial management' and 3 to 'human resources').

72. Out of the 45 outstanding process or programme-related recommendations, 18 correspond to procurement audits completed in 2015 and 2016; 15 to the 2016 audit of the 'governance and strategic management of the UNFPA Supplies' programme; another 10 regarding processes and ICT; and 2 for a regional office.

[9] Excluding the status of implementation of joint audit recommendations, which is reported by the relevant internal audit services that led the joint audit.

Figure 5
Outstanding recommendations as at 31 December 2017

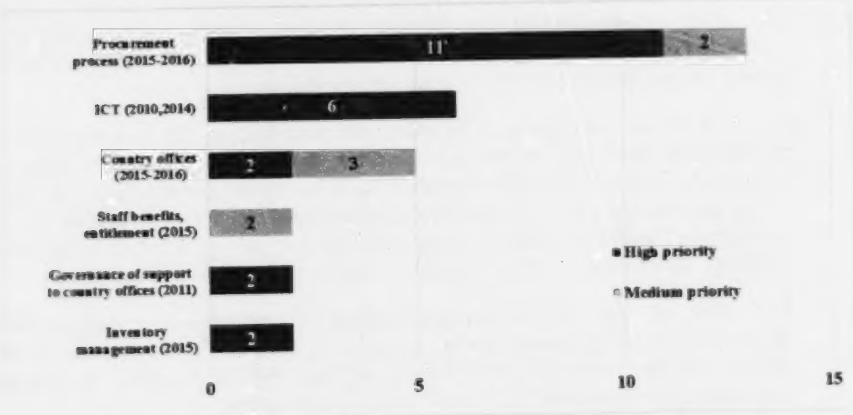


Acceptance of risk by management

73. There were no recommendations closed in 2017 based on management's acceptance of the risk of not implementing them.

Recommendations unresolved for 18 months or more

Figure 6
Recommendations unresolved for 18 months or more



74. The review of implementation recommendation showed progress, compared to 2016, in particular regarding inventory management. Of the 112 outstanding recommendations as at 31 December 2017, 30 remained unresolved for 18 months or more (see Figure 6 and annex 4), compared to 50 recommendations in 2016. Of the 30 recommendations, 13 correspond to procurement processes; 6 to various ICT processes, requiring a combination of procedure improvements (e.g. the procurement procedures revision or the development of a more robust ICT internal control framework) or the ICT transformation; 5 to two country offices (e.g. related to decentralized offices, budget and monitoring); and the remaining 6 to three organization-wide processes (related to programme implementation and human resources in particular).

B. Disciplinary measures or sanctions taken after investigations

75. Disciplinary or administrative action or sanction was initiated in two of the 14 cases which were substantiated in 2017, with management action pending for the remaining 12.[10]

76. Of the 15 (out of 19) cases substantiated in 2016 for which action was pending at the beginning of 2017, by year-end, management had imposed sanctions or administrative measures in six cases; four cases are about to be referred to national authorities; two were closed by the vendor review committee; and three remained outstanding.

77. Of the 13 cases substantiated in 2015, by year-end 2017, management had taken action for 11 of them, with the remaining two referred to national authorities and pending vendor review committee.

78. Of the 14 cases substantiated in 2014, two remain pending with the vendor review committee.

VIII. Advisory activities

79. The external and internal environment in which UNFPA operates continues to change rapidly; the rationale elaborated in DP/FPA/2015/7 (paragraph 74) remained valid in 2017.

80. There continue to be a high demand for OAIS advisory services and is primarily ad-hoc. Several requests required significant investment, especially by OAIS management. This continued to have a disruptive 'domino-effect' on other OAIS activities although, due to its capacity, OAIS continued to limit drastically its involvement to the following:

(a) *Review of audit and investigation clauses in financing agreements*. OAIS reviewed multiple versions of the 28 agreements brought to its attention in 2017 (23 in 2016; 16 in 2015); most continue to require responses within very short timeframes;

(b) *Assessments of audit and investigation functions*. OAIS continued to participate in several reviews conducted by Member States and donors at the local and corporate levels for which its input was sought, while responding to their questions throughout the year;

(c) *Policies*. OAIS declined to review policies except the fraud policy revision, which it actively supported (one in 2017 versus 18 in 2016; 10 in 2015; 22 in 2014);

(d) *Dealing with sexual exploitation and abuse and sexual harassment:* OAIS provided in 2017 extensive support to management regarding policies, protocols and internal coordination in these areas. OAIS has also been very active in the corresponding inter-agency fora, e.g. actively supporting the activities of the Office of the Special Coordinator as well as of the Inter Agency Standing Committee, in particular on defining protocols and processes, on reporting mechanisms and information (including publicly sharing thereof), on handling allegations an1 their investigations. This is an area in which OAIS will continue to support on in 2018 to the extent of its resources (see further paragraph 83);

(e) *Support to UNFPA senior management*. This includes, but is not limited to, OAIS participation as an observer in various steering or working committees; and

(f) *General support* to UNFPA personnel.

[10] These were the figures at the time of writing this report. Details for 2017 are in Annex 6, for previous years, in Annex 7.

IX. Collaboration within the United Nations system

A. Internal audit

81. In 2017, OAIS continued its active involvement in inter-agency activities and meetings on internal audit and in joint audits. OAIS participated in the sharing of practices and experience among the internal audit services of the United Nations Organizations, Multilateral Financial Institutions and Other Associated Intergovernmental Organizations (UN-RIAS and RIAS).

82. In 2017, OAIS was once more the UN-RIAS Vice-Chair for joint audits and focal point for United Nations Development Group (UNDG) interactions, and was actively involved in improving the process for gathering and analysing data for pooled funds and the United Nations system. OAIS became the UN-RIAS Chair for 2017-2018. Further, OAIS participated in various fora of exchange of information with other multilateral actors, e.g. on audit and fraud.

B. Investigation

83. In 2017, OAIS continued to collaborate closely with the United Nations Representatives of Investigative Services (UN-RIS). OAIS was active in inter-agency investigation activities, in the meetings of UN-RIS and the Conference of International Investigators, inter alia, in the working groups on investigating allegations of sexual exploitation and abuse (see also paragraph 80 (d) above), and on investigating aid provided for the 'Whole of Syria' response.

C. Joint Inspection Unit

84. OAIS continued its role as the UNFPA focal point for the Joint Inspection Unit. OAIS liaised on about 20 reviews with UNFPA units, the Joint Inspection Unit itself and the secretariat of the Chief Executives Board for Coordination.

85. OAIS continued to note, with concern, the significantly increasing workload required to fulfil the focal point role for UNFPA. It affected in particular the follow-up of recommendations.

X. Overall conclusion and next steps

86. OAIS wishes to thank the late and the current Executive Directors, senior management, the Executive Board and the Audit Advisory Committee for their continuous support, which has enabled OAIS to carry out its mandate as successfully as possible in 2017.

87. Through its various actions in response to OAIS reports and advice, UNFPA management continued to demonstrate in 2017 its commitment to increasing the effectiveness of the governance, risk management and control processes at UNFPA.

88. Looking ahead, the main challenge for OAIS remains, more acutely than ever, the alignment of increasing expectations with available resources.

89. While OAIS appreciates the increased funding in 2017, the mismatch between "supply" – the resources available to the Office, given the risk appetite at UNFPA – and "demand" for OAIS services – for internal audit (internal audit cycle coverage; expectation of audit coverage at the level of donor-funded projects or programmes); investigation (prompt handling, while respecting due process, of cases increasing in types, numbers and complexity, including those of harassment and abuse of authority, and of sexual exploitation and abuse); increasing reporting requirements to donors (particularly on investigations); requests for advisory services and a higher demand related to the Joint Inspection Unit – has been widening in 2017. As

already noted in previous years, this mismatch makes OAIS present a heightened fiduciary and reputation risk for UNFPA.

90. OAIS will continue its commitment to providing high-quality services, to the extent of the resources at its disposal.